

UNEMPLOYMENT INSURANCE FUND
SOUTH DAKOTA DEPARTMENT OF LABOR

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2010

SOUTH DAKOTA DEPARTMENT OF LABOR

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INDEPENDENT AUDITOR'S REPORT

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

We have audited the accompanying financial statements of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** (the Fund) as of and for the year ended June 30, 2010, as detailed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Unemployment Insurance Fund and do not purport to, and do not, present fairly the financial position of the South Dakota Department of Labor or the State of South Dakota, as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** as of June 30, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 16, 2010 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

September 16, 2010

SOUTH DAKOTA DEPARTMENT OF LABOR

BALANCE SHEET

UNEMPLOYMENT INSURANCE FUND

JUNE 30, 2010

Assets

Current Assets

Cash (Note 2)	\$ 16,029,234
Receivables, Net of Allowance for	
Doubtful Accounts of \$3,294,739	1,957,978
Receivable From Other Governments	621,176
Receivable From Other State Fund (Note 3)	118,999
Total Assets	\$ 18,727,387

Liabilities and Net Assets

Current Liabilities

Payable to Futures Fund	\$ 22,979
Payable to Fiscal Administration Fund	768,870
Payable to Employment Security Contingency Fund	120,418
Total Current Liabilities	912,267

Commitments (Note 4)

Net Assets

Unrestricted	17,815,120
Total Liabilities and Net Assets	\$ 18,727,387

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

Operating Revenues	
Taxes	\$ 87,819,883
Grant Revenue	11,765,089
Total Operating Revenue	99,584,972
Operating Expenses	
Unemployment Insurance Benefits	92,601,204
Operating Income	6,983,768
Non-Operating Revenue	
Revenue From the Use of Money	1,206,334
Transfers	
Transfers To Other State Funds	(912,686)
Transfers From Other State Funds	123,152
Total Transfers	(789,534)
Change in Net Assets	7,400,568
Total Net Assets -- June 30, 2009	10,414,552
Total Net Assets -- June 30, 2010	\$ 17,815,120

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR

**STATEMENT OF CASH FLOWS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

Cash Flows From Operating Activities

Receipts from Employers	\$ 86,762,337
Receipts from Grants	11,765,089
Net Payments to Other Funds	(138,911)
Payments for Benefits	(92,601,204)
Net Cash Flows Provided by Operating Activities	5,787,311

Cash Flows From Non-Capital Financing Activities

Borrowings from Federal Government	24,088,989
Repayments to Federal Government	(24,088,989)
Transfer To Employment Security Contingency Fund	(912,686)
Transfer From Employment Security Contingency Fund	123,152
Net Cash Flows Used in Non-Capital Financing Activities	(789,534)

Cash Flows From Investing Activities

Pooled Investment Income	1,206,334
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Net Increase in Cash During the Year **6,204,111**

Cash – Beginning of Year **9,825,123**

Cash – End of Year **\$ 16,029,234**

Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:

Operating Income	\$ 6,983,768
Increase in Receivables	(627,043)
Decrease in Receivable From Other Governments	796,969
Increase in Receivable From Other State Funds	(24,094)
Decrease in Payable to Other State Funds	(911,786)
Decrease in Payable to Employers	(430,503)

Net Cash Flows Provided by Operating Activities **\$ 5,787,311**

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR

NOTES TO THE FINANCIAL STATEMENTS UNEMPLOYMENT INSURANCE FUND JUNE 30, 2010

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The South Dakota Department of Labor (the Department) is the state agency responsible for providing job placement services, job training services, unemployment insurance services, and the enforcement of state labor laws. The Unemployment Insurance Fund (the Fund) is used to account for tax receipts from employers within the State of South Dakota and to account for benefits paid to unemployed persons. The accompanying financial statements present only the financial condition and results of operations of the Fund and do not represent a complete presentation of the Department's net assets and activities.

b. Fund Accounting

The accounts of the Unemployment Insurance Fund are organized for accounting and reporting purposes on the basis of fund accounting. The operations of the Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

Proprietary Funds:

Enterprise Fund - enterprise funds are used to report a governmental activity funded by a charge to external users of services.

The Fund does not apply any FASB Statements and Interpretations issued after November 30, 1989.

Unemployment Insurance Fund - an enterprise fund established to account for funds that are expended for benefits paid to unemployed South Dakota workers. Fund revenues are collected from South Dakota employers based upon a percentage of qualifying wages paid, and from direct federal funding. Cash balances of the Unemployment Insurance Fund are required to be deposited with the U.S. Department of Treasury.

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Significant estimates not disclosed elsewhere in the accompanying financial statements include:

An allowance for uncollectible receivables is maintained at a level which management believes is adequate to absorb probable uncollectible accounts. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the Fund.

It is reasonably possible that this estimate will change significantly in the near term.

d. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues from unemployment taxes collected from employers are recognized in the period received because the amounts cannot be reasonably estimated prior to collection.

SOUTH DAKOTA DEPARTMENT OF LABOR

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2010

(1) Summary of Significant Accounting Policies (Continued)

e. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Assets, revenue and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

(2) Cash

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Department's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of the bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivisions or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2010, the Fund's cash consisted only of checking and pooled US Treasury Unemployment Insurance Funds. All of these accounts are insured or collateralized in the Fund's name. The Fund has no investment policies to restrict its investments beyond the state requirements noted above.

(3) Receivable from Other State Funds

The receivable from other state funds relates to unemployment insurance benefits paid for reimbursable employees.

(4) Commitments

Benefit payments to unemployed persons (claimants) are recorded when paid. Unemployed persons may receive benefit payments for up to the lesser of twenty-six payments at their maximum weekly amounts (may be extended as part of the ongoing federal programs currently in place) or as long as they continue to be eligible to receive payments. Eligibility to continue to receive benefit payments is determined on a weekly basis. Accordingly, no liability has been recorded for future benefit payments. The maximum remaining amount of benefits payable to unemployed persons at June 30, 2010 is not determinable; however, the amount would be significant to the Fund's financial statements.

(5) Short-term Borrowings

During the year ended June 30, 2010, the Fund borrowed \$24,088,989 from the Federal Government to pay benefit payments. All borrowings were repaid as of year-end.

SUPPLEMENTARY INFORMATION

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

<u>FUNDING SOURCE</u> <u>PROGRAM NAME</u>		<u>FEDERAL</u> <u>CFDA</u> <u>NUMBER</u>	<u>FEDERAL</u> <u>EXPENDITURES</u> <u>(CASH BASIS)</u>
U.S. Department of Labor			
Direct Programs:			
State Unemployment Insurance Benefits (Note 1)	*	17.225	\$ 60,445,255
Federal Unemployment Insurance Benefits	*	17.225	8,145,949
Federal Additional Compensation Unemployment Insurance Benefits (ARRA)	*	17.225	8,146,752
Federal Emergency Unemployment Insurance Benefits (ARRA)	*	17.225	15,863,248
Total Federal Funds Expenditures			\$ 92,601,204

Note 1 - This amount represents the State's expenditures for unemployment benefits and is reported as a major federal program as required by the U.S. Department of Labor and the Inspector General. Included in this balance is \$1,995,555 of state unemployment benefits that were paid with funds from the Federal Unemployment Compensation Modernization Program (ARRA) with a balance of \$9,769,534 remaining at year-end.

* Considered major federal assistance programs pursuant to Department of Legislative Audit requirements.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

We have audited the financial statements of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** (the Fund) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in Part B Findings #2010-1, 2010-2, and 2010-3 to be material weaknesses.

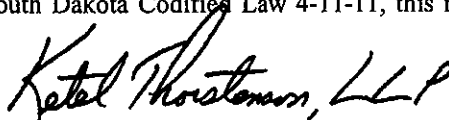
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

To Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

The Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the State of South Dakota's management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 16, 2010



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Compliance

We have audited the compliance of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR** (the Fund) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The Fund's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Fund's compliance with those requirements.

As described in Part C in the accompanying Schedule of Findings and Questioned Costs, the Fund did not comply with requirements regarding reporting that is applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for the Fund to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Fund complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of the Fund is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

To Honorable Michael Rounds
Governor of South Dakota
and
The South Dakota Department of Labor

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified two deficiencies in internal control over compliance that we consider to be material weaknesses and one deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs in Part B Finding #2010-2 and Part C Finding #2010-4 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs in Part C Finding #2010-5 to be a significant deficiency.

The Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the State of South Dakota's management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 16, 2010

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

A. Summary of Audit Results

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the Unemployment Insurance Fund (the Fund).
2. Three deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. All three deficiencies were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Fund were disclosed during the audit.
4. Three deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. Two deficiencies were considered to be material weaknesses.
5. The independent auditor's report on compliance for the major federal award program for the Fund expresses a qualified opinion.
6. Audit findings relative to the major federal award program are reported in Part C of this schedule.
7. The program tested as a major program included: State and Federal Unemployment Insurance CFDA# 17.225.
8. The threshold used for distinguishing between Type A and B programs was \$7,200,000.
9. The Department was not considered a low risk auditee under the criteria established in OMB Circular A-133.

B. Findings -- Financial Statement Audit

Material Weaknesses

2010-1: Audit Adjustments

Condition: During the course of our audit engagement, we proposed material audit adjustments that resulted in significant changes in the Fund's financial statements. Adjustments included recording federal benefit payments paid, adjusting the allowance for doubtful accounts, reclassifying fiscal administration money from revenue to liability account, adjusting reimbursable employer accounts to actual, recording amount due to contingency fund and correcting mispostings to transfers to contingency fund and recording amount due to futures fund. These adjustments would not have been identified as a result of the Fund's existing internal controls, and therefore, could have resulted in a material misstatement of the Fund's financial statements.

Criteria and Effect: It is the responsibility of management to implement and operate effective internal controls to identify and detect potentially material adjustments to the financial records.

Recommendations: Accounting staff should ensure that year-end balance sheet accounts are reconciled and recorded properly. Normal year-end adjustments should be made by accounting staff. In addition, we recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings -- Financial Statement Audit (Continued)

Material Weaknesses (Continued)

2010-1: Audit Adjustments (Continued)

Response/Corrective Action Plan: During the next fiscal year, we will continue to utilize the senior internal auditor from the Department of Labor, Unemployment Insurance Division, to review our financial statements on a quarterly basis. Also, the senior accountant, accounting management analyst, and Deputy UI Director will meet to review the results and take action as needed. In addition, the senior accountant from the UI Division will perform a quarterly reconciliation of the contingency and investment fund with the Fiscal Division's senior accountant to ensure the funds remain in balance. Sharon Schnabel will be in charge of this activity and review of the corrective action plan.

2010-2: Preparation of the Financial Statements

Condition: We were requested to draft the audited financial statements, related footnote disclosures and Schedule of Expenditures of Federal Awards as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the Fund's financial statements and footnote disclosures, and the responsibility of the auditor to determine the fairness of presentation of those financial statements. From a practical standpoint, we do both for the Fund at the same time in connection with our audit.

Criteria and Effect: It is our responsibility to inform the Fund's management and those charged with governance that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Fund's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the Fund with the completed financial statements. It is the responsibility of the Fund's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk. The senior internal auditor will be in charge of implementation and review of the corrective action plan.

2010-3: Review of Journal Entry Posting and Bank Reconciliations

Condition: During the year, the Fund implemented a review process over the accountant's postings to the general ledger; however, the review process was not performed timely and variances were not investigated and corrected timely. This resulted in reconciling differences on the clearing account, benefit payment account and trust fund account bank reconciliations. The reconciling differences had been noted in excess of six months. Additionally, we noted the account coding of reimbursable employer accounts was changed during the current year, which resulted in a negative reimbursable employer account of approximately \$40,000 that was not corrected timely.

Criteria and Effect: It is the responsibility of management to implement and operate effective internal controls to identify errors to the financial records and to investigate and correct the errors timely.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings -- Financial Statement Audit (Concluded)

Material Weaknesses (Concluded)

2010-3: Review of Journal Entry Posting and Bank Reconciliations (Continued)

Recommendation: Management should regularly agree the general ledger to supporting documentation and reconciliations. A review process should be implemented monthly and any discrepancies noted should be investigated and corrected promptly (i.e. the year-end review process needs to occur and any discrepancies corrected prior to providing the auditors with the trial balance). Bank reconciliation differences should not be carried forward month-after-month without being investigated and corrected.

Response/Corrective Action Plan: We expect the senior internal auditor's quarterly review process to be timely this fiscal year. Monthly corrections will be made as necessary in areas for which monthly (rather than quarterly) data is available. In addition, the senior accountant, accounting management analyst, and the Deputy UI Director will meet and take action on the senior internal auditor's review results. Sharon Schnabel will be in charge of implementation of this corrective action plan.

C. Findings and Questioned Costs -- Major Federal Award Programs Audit

Finding #2010-2 in Part B above relates to the Fund's major federal program.

Material Weakness

2010-4: Filing of Late Federal Reports

Condition: Due to the Fund falling behind in processing monthly batches as a result of a new program integration glitch experienced in the prior fiscal year and fixed during the current fiscal year, the Fund filed multiple monthly and quarterly federal reports to the Federal Government delinquent.

Criteria and Effect: Per federal government regulations, the Fund is required to file various reports monthly or quarterly to report the current activity of the Fund to the Federal Government.

Questioned Costs: None

Recommendation: We recommend the Fund file reports to the Federal Government timely.

Response/Corrective Action Plan: Reports have been filed timely since December 2009 and will be filed timely this fiscal year. Sharon Schnabel will be in charge of implementation of this corrective action plan.

Significant Deficiency

2010-5: Mischarge to Employer Accounts

Condition: During our testing of benefit payments, it was noted that two employer accounts were improperly charged as the claimant indicated she had voluntarily separated without good cause.

Criteria and Effect: Per SDCL 61-5-29, no benefits paid on the basis of a period of employment may be charged to the experience-rating account of any employer, except as provided in SDCL 61-5-29.2, if the claimant voluntarily separated without good cause attributable to the employer or the employment.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

C. Findings and Questioned Costs -- Major Federal Award Programs Audit (Continued)

Significant Deficiency (Continued)

2010-5: Mischarge to Employer Accounts (Continued)

Questioned Costs: None

Recommendation: We recommend employers be relieved of charges to their accounts at the time of initial determination of benefits when the claimant indicates he/she voluntarily separated without good cause.

Response/Corrective Action Plan: Policy is to relieve employer accounts when the claimant indicates he/she voluntarily separated without good cause. The miss charging may have occurred due to the workload during the fiscal year. However, staff involved in this activity will be reminded of policy. Sharon Schnabel will be in charge of implementation of this corrective action plan.

Status of Prior Audit Findings

Audit findings 2009-1, 2009-2, 2009-3 and 2009-5 for the year ending June 30, 2009 are repeated as findings 2010-1, 2010-2, 2010-3 and 2010-4, respectively, for the year ending June 30, 2010. The Fund has reverted back to the old employer tax program and monthly processing was being performed timely beginning in December 2009; therefore, there were no batches backdated which resulted in activity being posted to the improper fiscal year in the current year. Considering such, finding 2009-4 is not repeated in the current year. There were no instances of benefit overpayments noted during the audit procedures performed in the current year. Therefore, finding 2009-6 is not repeated in the current year.